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FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC PRIORITY 3161
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RUEHUJA/AMEMBASSY ABUJA 2010
RUEHAR/AMEMBASSY ACCRA 2133
RUEHDS/AMEMBASSY ADDIS ABABA 2253
RUEHBY/AMEMBASSY CANBERRA 1530
RUEHDK/AMEMBASSY DAKAR 1888
RUEHKM/AMEMBASSY KAMPALA 2309
RUEHNR/AMEMBASSY NAIROBI 4740
RUEAIIA/CIA WASHDC
RUEHGV/USMISSION GENEVA 1399
RHEHAAA/NSC WASHDC
RHMFSS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
RUZEHAA/CDR USEUCOM INTEL VAIHINGEN GE

C O N F I D E N T I A L SECTION 01 OF 02 HARARE 000604

C O R R E C T E D C O P Y (CHANGED PARA NUMBERS)

SIPDIS

AF/S FOR S. HILL
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
STATE PASS TO USAID FOR L.DOBINS AND E.LOKEN
TREASURY FOR J. RALYEA AND T.RAND
COMMERCE FOR BECKY ERKUL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS

E.O. 12958: DECL: 04/01/2018

TAGS: EFIN ECON PGOV ASEC ZI

SUBJECT: UK COMPANY SUSPENDS HARD CURRENCY DELIVERIES TO
ZIMBABWE

HARARE 00000604 001.2 OF 002

Classified By: Charge d'Affaires Katherine Dhanani for reason 1.4 (d)

SUMMARY

¶1. (C) U.K.-based Travelex suspended its supply of foreign currency to Western Union Zimbabwe in late June, apparently fearful of being tarred with sustaining the Mugabe regime. Consequently, Zimbabwe's major money transfer company has capped cash disbursements while it scrambles for alternate supplies. Local-currency cash could also begin to dry up (again) due to profligate GOZ spending coupled, this time, with the government's inability to print enough bank notes. Further unsettling the currency market, and in a sign of low confidence in the GOZ's ability to stabilize the free-falling economy, forex trading is shifting from the formal banking sector back to the street where the exchange rate is twice as high, thus undermining the Reserve Bank's experiment with partial liberalization of the foreign exchange market. Travelex's suspension of foreign currency deliveries, if continued, could weaken a significant social safety valve in Zimbabwe's swooning economy, at least in the short term, and turn the heat up on the Mugabe regime. END SUMMARY.

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U.K. Company Suspends Hard Currency Deliveries
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¶2. (C) On the heels of German printer Giesecke & Devrient's

termination of the supply of bank note paper to Zimbabwe, announced on July 1, the U.K.-based company Travelex suspended its twice-weekly shipment of foreign currency to Western Union Zimbabwe shortly after releasing its last shipment on June 25. Fred Mutanda, the head of Western Union in Zimbabwe, told econoff on July 7 that Travelex anticipated being put under pressure by the U.K. government and the British media to terminate its business with Zimbabwe, as happened to Anglo American and Barclays Bank after the flawed June 27 election. As a preemptive measure it had suspended all its business with Western Union pending internal review of the situation.

Western Union Squeezed for Cash

¶3. (C) With a significant share of Zimbabwe's formal remittance market, Western Union had been paying out about US\$550,000-600,000 a day, six days a week, in money transfers since early May. Included in this amount is also the foreign exchange component of salaries paid by three local mining companies and two other companies.

¶4. (C) Western Union had been maintaining average daily cash holdings of about US\$4 million, but the company was down to its last US\$100,000 on July 8. When deliveries stopped, Western Union started limiting daily disbursements to US\$500.

Surveying the company's outlets in Harare on July 9, we found lines of 300-400 people at the downtown branches. Apparently there is also a cap of 150-200 customers served per day at the main branches. Mutanda added that he would not be able to pay out any foreign currency salaries in July.

¶5. (C) Mutanda was frantically seeking alternate cash sources

HARARE 00000604 002.2 OF 002

overseas and in Zimbabwe while he awaited Travelex's decision on the business relationship. As he spoke to econoff, he was negotiating on the telephone to buy US\$500,000 in bank notes from each of three large Zimbabwe banks (with RBZ approval). He said the banks were flush with cash from exchanging the heavy inflow of remittances at the inter-bank exchange rate that the RBZ had introduced on April 30, 2008.

¶6. (C) Marah Hatigavone, president of the Zimbabwe National Chamber of Commerce (ZNCC) and a board member of FBC Bank, on the other hand, told econoff on July 9 that the intake of foreign currency to the commercial banks had contracted sharply in the last weeks due to the rising premium for foreign currency on the street compared to the inter-bank rate. (Note: The average inter-bank rate is about Z\$18 billion:US\$ today against Z\$40billion:US\$ on the street. End Note)

Remittances Plus Remitted Goods - Up To US\$3 Billion/Year

¶7. (C) Mutanda gauged that roughly US\$2 million worth of hard currency entered Zimbabwe every day through formal and informal channels. Estimates of remittances vary wildly and are notoriously difficult to corroborate. Coming in on the high side in our view, Mutanda thought that the value of remittances plus foreign-purchased goods and services, in particular fuel coupons and food purchased by third parties and delivered to Zimbabwe, could be as high as US\$3 billion/year.

Looming Zimbabwe Dollar Shortage, As Well

¶8. (C) Zimbabwe also appears to be headed toward a local currency cash crisis, as well, yet again; it no longer has the means to print money as fast as it spends it.

Complicating the currency market further, and in a sign of low confidence in the GOZ's ability to stabilize the free-falling economy, the increasing gulf between the inter-bank rate of foreign exchange and the street rate is driving traders back into the parallel market and undermining the Reserve Bank's experiment with partial liberalization of the forex market.

COMMENT

¶9. (C) Forex shortages could increase pressure from consumers on the regime as demand for food and goods that had been purchased on the local black market or outside the country with remitted cash shifts back to the domestic market where the shelves are bare. Zimbabweans are notoriously proud of their sanctions busting tradition and will certainly adapt, to some extent, to a new shortage. But the suspension of foreign currency deliveries, if continued, could weaken a significant social safety valve in Zimbabwe's swooning economy, at least in the short term, and turn the heat up on the Mugabe regime. END COMMENT.

Dhanani